

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0437-01
Bill No.: SB 79
Subject: Business and Commerce; Corporations; Economic Development; Science and Technology; Taxation and Revenue - Income
Type: Original
Date: February 28, 2011

Bill Summary: This proposal establishes the Missouri Science and Innovation Reinvestment Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(Unknown greater than \$1,000,000)	(Unknown greater than \$1,000,000)	(Unknown greater than \$1,000,000)
Total Estimated Net Effect on General Revenue Fund	(Unknown greater than \$1,000,000)	(Unknown greater than \$1,000,000)	(Unknown greater than \$1,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Science and Innovation Reinvestment	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Note amount of funding equals grants awarded and nets to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. BAP has identified the following sections which may have budget or revenue implications:

196.1115.3 - Makes the MTC the administrative agent of the LSRB.

348.251.1 --- Definitions, in particular (3) "Base Year" is Fiscal Year 2011.

348.256.10 - The MTC may employ needed staff. Corporation employees shall be eligible to participate in MOSERS and MCHCP, but are not considered state employees. BAP assumes these costs will be borne by the MTC, by either the Missouri Science and Innovation Reinvestment Fund, or other funding available to MTC. BAP defers to DED /MTC for any estimated costs.

348.261(1, 14-16) - MTC may expend monies in the science and innovation fund as necessary to fulfill its mission, including developing a proof-of-concept finance program, an angel investment finance program, and a venture capital co-investment fund.

348.263.3-5 --- The corporation is subject to open records laws, except as otherwise provided.

348.264 - The Missouri Technology Investment Fund is renamed the Missouri Science and Innovation Reinvestment Fund.

348.265.1 -

At the end of each fiscal year, DED and DOR shall determine the growth in gross wages of Science and Innovation companies, as defined in this proposal by NAICS codes, as well as companies that DED and DOR may identify as qualifying organizations. They shall compare these wages to wages earned during the base year (FY 11), and the growth shall be reported to the Governor and General Assembly.

Based on data supplied to BAP by DED, BAP estimates that wage growth in these industries averages \$200M per year, but could vary substantially. The applicable percentage and calculated transfer is presented in the table below.

This transfer is subject to appropriation.

BAP notes that base year wages are not adjusted for inflation in this proposal. Because there is no inflationary adjustment, this could result in the redirection of normal increases in income tax growth from the General Revenue Fund into the new fund.

ASSUMPTION (continued)

All figures in millions

Fiscal Year	Growth from Prior Year	Growth from Base Year	App. Percentage	Estimated Transfer
FY 2012	200	200	6%	12
FY 2013	200	400	6%	24
FY 2014	200	600	6%	36
FY 2015	200	800	6%	48
FY 2016	200	1000	6%	60
FY 2017	200	1200	6%	72
FY 2018	200	1400	6%	84
FY 2019	200	1600	6%	96

Officials at the **Department of Revenue (DOR)** assume this proposal requires DOR to assist the Department of Economic Development (DED) to establish the base year gross wages paid by science and innovation companies to their employees and report that amount to the corporation, the governor, and the general assembly. Within 180 days after the end of each fiscal year beginning with fiscal year 2011, DED with the assistance of DOR will be required to determine and report to the governor and the general assembly the amount by which aggregate science and innovation employee's gross wages for the fiscal year exceeds the base year gross wages.

Personal Tax would need the following:

One Management Analyst Specialist I (Range 23, Step N) for reporting purposes to work with the Department of Economic Development to establish a base year and report out each year the amounts that exceeds the base year.

The Department has access to a third party database (Info USA) that may have the potential to drill down to the employee level using NAICS codes. However, this data is up to three years old. A refresh of that data costs \$50,000.

Oversight assumes that since DOR is to assist DED on this project that the duties can be absorbed with existing staff and resources.

JH:LR:OD

ASSUMPTION (continued)

Officials at the **Department of Economic Development** assume the following in calculating the state impact:

1. Relevant gross wage data was provided by MERIC.
2. Calculate the most immediate preceding 3 years of average annual increase in gross wages for MOSIRA NAICS as outlined in proposed legislation.
3. Assume that the average annual growth of gross wages for the past 3 years is a reasonable proxy of growth for the next 3 years into the future.
4. Apply the MOSIRA specified 6% "applicable percentage" for each year of growth (note that because the base year does not change each year the "applicable percentage" is applied to the total growth off the base year in each successive year, hence the larger number each year).
5. Estimated total fiscal impact is calculated:
 FY13 - \$4,458,161
 FY14 - \$8,916,322
 FY15 - \$13,374,483

MOSIRA Fiscal Year Total Wages
 6.0%Tax Rate Estimate (Adjust to Chg. Fund Estimate)

MOSIRA INDUSTRIES

FISCAL YEAR	TOTAL WAGES	DIFFERENCE	FUND ESTIMATE
FY2005	\$2,621,172,549		
FY2006	\$2,805,447,892	\$184,275,343	\$11,056,521
FY2007	\$2,897,098,801	\$91,650,909	\$5,499,055
FY2008	\$3,140,730,059	\$243,631,258	\$14,617,875
FY2009	\$3,307,019,452	\$166,289,393	\$9,977,364
FY2010	\$3,120,006,843	(\$187,012,609)	(\$11,220,757)
		5-YR AVG	\$5,986,012

FY2010 is from July 1, 2009 to June 30, 2010

3-Year Average Growth	\$74,302,681
Year 1 (6%)	4,458,161
Year 2 (6%)	8,916,322
Year 3 (6%)	13,374,483
3-Year Total	26,748,965

ASSUMPTION (continued)

Officials at the **Missouri Consolidated Health Care Plan** assume the fiscal impact on MCHCP is the product of the predicted membership magnitude of Missouri Technology Corporation (MTC) and the estimated net payment per active employee per year. MCHCP assumes the health status of MTC subscribers and their number of dependents per subscriber is similar to MCHCP's existing active employee population. Net payments for active employee subscribers are approximately \$9,727 per subscriber per year based on 2011 estimates. Eventually, MTC would have retirees covered under their medical plan. Again, assuming the health status of MTC retirees and their number of dependents per subscriber is similar to MCHCP's existing retiree population; net payments for retiree subscribers are approximately \$7,776 per subscriber per year based on 2011 estimates.

Officials from the **Missouri State Employees Retirement System (MOSERS)** stated in order to participate in MOSERS, compensation must be paid by a "department" as defined in section 104.1003, RSMo (which includes an agency of the executive, legislative, or judicial branch and a body corporate or politic whose employees are eligible for MOSERS' coverage by law). The Missouri Technology Corporation is not a department under that definition and, therefore, the compensation paid to employees would not be included for retirement purposes.

Oversight assumes that if the employee of the authority are allowed to join MOSERS, the contribution costs would be borne by the authority and not the State.

Officials at the **University of Missouri** assume this bill would have a positive fiscal impact comparable to other mid-western states that have implemented similar programs.

Officials at the **Department of Labor and Industrial Relations, Office of the State Auditor** and the **Office of the State Treasurer** assume that there is no fiscal impact from this proposal.

Oversight is showing the cost to the General Revenue Fund as being unknown greater than \$1,000,000.

Oversight assumes this proposal could have positive fiscal benefits for the state; however, Oversight considers these benefits to be indirect and have not reflected them on the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Transfer Out</u> - to general revenue of the taxes from new employees in new businesses	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>
MISSOURI SCIENCE AND INNOVATION REINVESTMENT FUND			
<u>Transfer In</u> - taxes from new employees in the new businesses	Unknown greater than \$1,000,000	Unknown greater than \$1,000,000	Unknown greater than \$1,000,000
<u>Costs</u> - expenditures made by the MTC	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>	<u>(Unknown greater than \$1,000,000)</u>
ESTIMATED NET EFFECT TO THE MISSOURI SCIENCE AND INNOVATION REINVESTMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the program established with this proposal could be positively impacted as a result of this proposal.

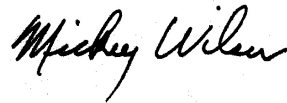
FISCAL DESCRIPTION

This act establishes the Missouri Science and Innovation Reinvestment Act. The act requires the advise and consent of the Senate for Gubernatorial appointments to the Missouri Technology Corporation's board of directors and sets the terms and requirements for the various members of the board of directors. The powers and duties of the Missouri Technology Corporation are expanded to allow the corporation to assume all monies and assets of the Missouri Seed Capital Investment Board and to establish a proof of concept finance program, an angel investment finance program, and a venture capital co-investment fund. The act provides application, approval, and reporting requirements for programs established by the Missouri Technology Corporation. In addition to the exceptions to open records and meetings requirements provided under the Sunshine Act, the act authorizes the Missouri Technology Corporation to close certain meetings and records held by the corporation. The directors of the department of economic development and the department of revenue must annually determine the incremental increase in gross wages paid within the state to science and innovation employees and apply a formula to such amount to determine the amount of funding necessary to administer the programs of the corporation. Once a determination is made, the directors of the department of economic development and the department of revenue must report their findings to the Governor and the General Assembly. The act replaces the Missouri Technology Fund with the Missouri Science and Innovation Reinvestment Fund, which will receive annual appropriations made by the General Assembly, based upon recommendations made by the directors of the departments of economic development and revenue, and contributions made by private entities, the federal government, and local governments. The act requires that any contract entered into between the corporation and any not-for-profit organization must provide at least a one hundred percent match of funding received from the corporation.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Labor and Industrial Relations
Department of Revenue
Missouri Consolidated Health Care Plan
Office of the State Auditor
Office of the State Treasurer
University of Missouri

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 28, 2011